

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Betsie Lake Utilities Authority	County Benzie
Audit Date 6/30/04	Opinion Date 7/20/04	Date Accountant Report Submitted to State: 7/22/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

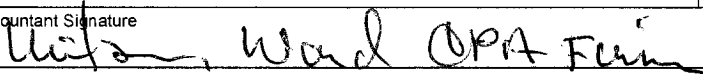
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Wilson, Ward CPA Firm			
Street Address PO Box 205	City Interlochen	State MI	ZIP 49643
Accountant Signature 		Date 7/22/04	

Wilson, Ward CPA Firm
3015 M-137
P.O. Box 205
Interlochen MI 49643

(231) 276-7668
Fax: (231) 276-7687

David E. Wilson, CPA
Robert K. Ward, CPA

July 20, 2004

Mr. Ernest Elliott, Superintendent
Betsie Lake Utilities Authority
PO Box 248
Frankfort, Michigan 49635

Sir:

The cooperative attitude was greatly appreciated. This attitude is reflected in the constant desire to do a better and more complete job and in providing enhanced services to the community.

The primary purpose of this letter is to prepare, for management, information which delineates those items encountered during the course of the audit which were either not related to the financial, internal control and compliance reports or were not material enough to comment on relative to them. However, these items might be significant when viewed from a management perspective or in the longer term. This letter is intended only for the use of management and any other parties not informed of these matters might misconstrue their meanings.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with general accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Betsie Lake Utilities Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Betsie Lake Utilities Authority are listed in Note A. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into the Betsie Lake Utilities Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Management Judgements and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Betsie Lake Utilities Authority that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. Our audit adjustments, individually and in the aggregate, have a significant effect on the financial reporting process.

COMMENT: While certainly not a requirement, consideration should be given to using a basic accounting system rather than the spread sheet for your accounting. This would make the writing of checks, running of payroll and paying taxes easier and quicker to generate. It would also prove less burdensome to prepare management reports for the Board.

RECOMMENDATION: A basic accounting system should be installed. Given the limited number of cash accounts and the level of expertise existing within the systems this is becoming a necessary item.

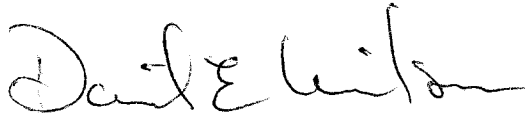
COMMENT: As always, in a small office it is extremely difficult to obtain a high level of segregation of duties.

RECOMMENDATION: Continue to insure that the Board approves all invoices for payment even if some are after the fact.

It is always a pleasure to work with you and the Board. Thank you for your time and effort.

It is important to remember that this report is for information only and provided to management with the sole intent that it can be evaluated with the potential to improve management practices and insure proper compliance with the bond covenants.

Sincerely,

A handwritten signature in black ink, appearing to read "David E. Wilson". The signature is fluid and cursive, with the first name "David" being the most prominent part.

David E Wilson

BETSIE LAKE UTILITIES AUTHORITY
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Betsie Lake Utilities Authority
Financial
Management's Discussion and Analysis
Annual Report.

This annual report consists of financial statements concerning the financial activities performed by the Authority. These statements reflect the current financial condition of the Betsie Lake Utilities Authority.

History:

The Authority decreased the Capital Improvement fund by \$395,000.00 for the addition of a new Oxidation to the current process, this addition was needed for the continued operation of the plant in the future. The total cost of this project was \$ 838,590.00. The funds for this project were set aside by the Authority over a period of seven or eight years from excess operating fund collected by the Authority from an outside source of revenue from Glen's Sanitary Landfill. The Authority also added another source of revenue by the addition of Septic receiving Station, the cost for this addition was \$ 188,000.00 bring the total cost of plant additions to \$ 1,026,590.00, additional funds from operations and equipment funds were used to start these two additions to the plant over the 2003 / 2004 fiscal year with the project completion running into the 2004 / 2005 fiscal year, income from operations will be used to complete the expansion project.

The Authority has two major clients that comprise the basis for the Authority consisting of City of Frankfort and the Village of Elberta. These two entities formed the Betsie Lake Utilities Authority to build and operate a Wastewater Treatment Facility to treat the wastewater from the two communities. The Board of the Authority consists of two members from each community and one appointed member from outside of the communities. The Authority also has treated waste from Glen's Sanitary Landfill this source of income has enabled the Authority to expand treatment capacity and to keep rates to the two communities at a constant rate over a long period of time.

General Financial information:

The Authority has five major Fund Accounts.

1. Operating Fund / general checking is working account used to hold operating income and to pay for required services and things needed to operate the plant.
2. Equipment Replacement Fund account is used to reserve operating income for new plant equipment or replacement of existing equipment.

3. Capital Improvement Fund account is used to reserve operating income for plant improvements for future uses or needed expansion of the plant for improved operation.

4. Debt Retirement Fund account is used to hold Debt Retirement money for the retirement of the Bond on the plant property and equipment.

5. Debt Retirement Bond Reserve Fund account is money required by the Bond holder for use to pay bond payments if funds aren't available in the Debt Retirement Fund.

Financial Position:

The Authority in the Fiscal Year 2003 / 2004 has built a project to expand the plant and increase revenue for the future. The total cost for this project is \$ 1026,590.00 at fiscal year end the Authority had paid \$ 1,205,748.00 on the cost of the project, the additional cost is for work needed to be performed for the required completion of the project. The Capital Improvement Fund was depleted for this project, other operating money was also used, the equipment replacement fund and operating income that was received during the construction was also used to pay required payments to our contractor. We ended the Fiscal Year with a operating balance of \$ 343,667.00

The Authority in Fiscal Year 2003 / 2004 paid required Bond payment to repay the debt on the Bond. The Authority ended the fiscal year with Debt Retirement balance of \$ 375,744.00 of this amount \$ 160,000 is required Bond Reserve Fund.

The Authority has maintained the operation of plant and paid required payments to Contractor for the additional equipment and meant all other required obligations for the operation and completion of this project.

The financial future of the Authority looks good at this time with the additional equipment added we will be able to have an additional source of revenue. This should help with needed operating and improvement funds in the future.

General Purpose Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Betsie Lake Utilities Authority
Frankfort, Michigan 49635

We have audited the accompanying general purpose financial statements of Betsie Lake Utilities Authority, as of and for the year ended June 30, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of Betsie Lake Utilities Authority management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Betsie Lake Utilities Authority as of June 30, 2004 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Interlochen MI
July 20, 2004

BETSIE LAKE UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
As of June 30, 2004

	June 30, 2004 Business Type Activities	June 30, 2003 Business Type Activities
Assets		
Current Assets		
Cash & Investments	\$435,185	\$540,250
Accounts Receivable	119,036	57,865
Acc Interest Receivable	0	4,107
Inventory	27,960	27,960
Prepaid Expenses	6,141	4,686
Total Current Assets	<u>588,322</u>	<u>634,868</u>
Restricted Deposits & Funded Reserved	302,896	855,661
Work In Process	880,412	19,226
Property, Plant, and Equipment - Net	<u>1,480,467</u>	<u>1,553,082</u>
Total Assets	<u><u>3,252,097</u></u>	<u><u>3,062,837</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	18,024	2,270
Accrued Bond Interest Payable	<u>32,077</u>	<u>16,109</u>
Total Current Liabilities	<u>50,101</u>	<u>18,379</u>
Long Term Debt		
Bonds Payable	<u>1,791,000</u>	<u>1,831,000</u>
Total Liabilities	1,841,101	1,849,379
Fund Equity		
Contributed Capital	0	26,242
Retained Earnings		
Fund Balances:		
Reserved for Bond and Interest	183,667	226,820
Reserved for Bond Reserve	160,000	160,000
Reserved for Equipment Replacement	106,000	106,000
Reserved for Capital Improvement	0	395,000
Unreserved	<u>961,329</u>	<u>299,396</u>
Total Fund Equity	<u>1,410,996</u>	<u>1,213,458</u>
Total Liabilities and Fund Balance	<u><u>\$3,252,097</u></u>	<u><u>\$3,062,837</u></u>

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF ACTIVITIES
As of June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Business-type Activities
Primary government				
Business Type Activities				
Wastewater Treatment	\$525,430	\$616,920	\$0	\$91,490
Total Primary Government				91,490
General revenues:				
Taxes				
Property Taxes-general				
Property Taxes-debt service				
State-Shared Revenues				
Unrestricted Investment Earnings				
Franchise taxes				
Miscellaneous Debt Service				106,048
Transfers				0
Total General Revenue-Special Items and Transfers				197,538
Changes in Net Assets				1,213,458
Net Assets - Beginning				\$1,410,996
Net Assets - Ending				

BETSIE LAKE UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2004

	Debt Service	Enterprise Fund	June 30, 2004 Total	June 30, 2003 Total
Assets				
Current Assets				
Cash & Investments	\$178,199	\$256,986	\$435,185	\$540,250
Accounts Receivable		119,036	119,036	57,865
Acc Interest Receivable		0	0	4,107
Inventory		27,960	27,960	27,960
Prepaid Expenses	649	5,492	6,141	4,686
Total Current Assets	178,848	409,474	588,322	634,868
Restricted Deposits & Funded Reserved	196,896	106,000	302,896	855,661
Work In Process		880,412	880,412	19,226
Property, Plant, and Equipment - Net		1,480,467	1,480,467	1,553,082
Total Assets	375,744	2,876,353	3,252,097	3,062,837
Liabilities and Fund Balance				
Liabilities				
Accounts Payable		18,024	18,024	2,270
Accrued Bond Interest Payable	32,077		32,077	16,109
Total Current Liabilities	32,077	18,024	50,101	18,379
Long Term Debt				
Bonds Payable		1,791,000	1,791,000	1,831,000
Total Liabilities	32,077	1,809,024	1,841,101	1,849,379
Fund Equity				
Contributed Capital		0	0	26,242
Retained Earnings				
Fund Balances:				
Reserved for Bond and Interest	183,667	0	183,667	226,820
Reserved for Bond Reserve	160,000		160,000	160,000
Reserved for Equipment Replacement		106,000	106,000	106,000
Reserved for Capital Improvement			0	395,000
Unreserved		961,329	961,329	299,396
Total Fund Equity	343,667	1,067,329	1,410,996	1,213,458
Total Liabilities and Fund Balance	\$375,744	\$2,876,353	\$3,252,097	\$3,062,837

BETSIE LAKE UTILITIES AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Proprietary Fund
For the Years Ended June 30, 2004 and June 30, 2003

			June 30, 2004	June 30, 2003
	Debt Service Funds	Enterprise Fund	Total	Total
Revenues				
Charges for Services				
City of Frankfort - (Note L)		\$165,510	\$165,510	\$155,018
Village of Elberta - (Note L)		64,134	64,134	72,872
Other Customers		287,133	287,133	120,556
Debt Service Charges				
City of Frankfort		64,192	64,192	96,288
Village of Elberta		41,856	41,856	41,856
Other Revenues	5,465	94,678	100,143	63,575
Total Revenues	5,465	717,503	722,968	550,165
Rebates		0	0	0
Total Revenues (Net of Rebate)	5,465	717,503	722,968	550,165
Expenditures				
Administrative and General Expenses				
Administrative		20,952	20,952	14,531
Insurance		5,673	5,673	8,346
Depreciation		72,615	72,615	85,888
Total Administrative and General Expenses		99,240	99,240	108,765
Operating Expenses				
Salaries, Taxes, and Fringe		143,799	143,799	122,218
Utilities		49,795	49,795	36,305
Misc		2,430	2,430	2,430
Chemicals Processing		23,502	23,502	16,516
Lab Expenses		3,639	3,639	7,275
Contract Services		30,650	30,650	28,501
Other Finance Charge			0	0
Bond Interest Expense	112,623		112,623	90,100
Equipment Replacement		34,467	34,467	3,958
Maintenance		25,285	25,285	23,981
Total Operating Expenditures	112,623	313,567	426,190	331,284
Excess Revenue (Expenditures)	(107,158)	304,696	197,538	110,116
Other Financing Sources (Uses)				
Transfers In	64,005		64,005	91,168
Transfers Out	0	64,005	64,005	91,168
Total Other Financing Sources	64,005	64,005	0	0
Excess Revenue & Other Financing Sources (Expenditures)	(43,153)	240,691	197,538	110,116
Beginning Fund Balance/Retained Earnings	386,820	826,638	1,213,458	1,103,342
Income Reserve		0	0	0
Ending Fund Balance/Retained Earnings	\$343,667	\$1,067,329	\$1,410,996	\$1,213,458

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF CASH FLOW
Enterprise Fund
For The Year Ended June 30, 2004

Cash Flow from Operating Activities

Operating Income	\$304,696
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Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities

Depreciation Expense	72,615
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Changes in Assets and Liabilities

(Increase) Decrease in Accounts Receivable	(61,171)
(Increase) Decrease in Prepaid Expenses	(1,455)
(Increase) Decrease in Inventory	0
(Increase) Decrease in Interest Rec	4,107
Increase (Decrease) in Accounts Payable	15,754
Increase in Funded Reserve	0
Transfer to Other Funds	<u>(64,005)</u>

Net Cash Provided by Operating Activities	<u>270,541</u>
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Cash Flow from Investing Activities

Decrease in Bonds Payable	(40,000)
Increase in WIP	(861,186)
Capital Acquisition	<u>0</u>

Net Increase (Decrease) in Cash	(630,645)
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Cash Beginning of Year	993,631
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Cash End of Year	<u><u>\$362,986</u></u>
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**BETSIE LAKE UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Betsie Lake Utilities Authority is organized to construct, maintain and manage a sewage disposal system and water supply system for the City of Frankfort and the Village of Elberta. As required by Governmental Accounting Standards, all other entities were reviewed to insure which should be included in this report. GASB Statement #1 requires that if certain oversight responsibility occurs, that subordinate entity activity should be noted in this report. Oversight responsibility is evidenced by:

- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Budgetary authority
- Responsibility to fund deficits or receive surplus funds
- Fiscal management
- Providing significant subsidies

Based on the above criteria, no other organization should be included in this report.

Basis of Presentation

The financial activities of the Authority are recorded as an Enterprise (Proprietary) Fund. This fund reports operations that provide services which are financed primarily by user charges and where periodic measurement of net income is appropriate for capital maintenance and management control. This year, the Authority came under the requirements of GASB 34. As such, two additional schedules have been incorporated and the books converted to full accrual.

Basis of Accounting

The financial statements reflect the full accrual basis of accounting with revenue recorded when earned and expenditures recorded as the liability is incurred.

Inventories

It is the Authority's policy to take a physical inventory of major items every year. A physical inventory was not taken this year with adjustments to value from the physical inventory based on a first in, first out basis at cost because there were no changes to major items in inventory.

Depreciation

The depreciation expense for the year was \$72,615 and is calculated on a straight line basis based on the life of the assets. Lives vary from 5 to 40 years. Depreciation is commenced in the year following acquisition.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority by which Treasurers may invest funds and includes the following:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Bankers' acceptances of United States banks.
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967.
- i) Investment pools organized under the the surplus funds investment pool act, 1982 PA 367.
- j) The investment pools organized under the local government investment pool act, 1985 PA 121. In bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States.

Deposits

At the year end investments and deposits were as follows:

	Balance Per Bank	Carrying Value
CASH		
Insured	\$ 100,000	\$ 100,000
Uninsured	167,227	164,209
Not rated as to risk:		
Money Market	147,170	147,170
Certificates of Deposit	260,000	260,000
Cash on Hand		66,602
OTHER-Petty Cash		\$ 100
Total Deposits	\$ 674,497	\$ 738,081

NOTE C - ACCOUNTS RECEIVABLE

The accounts receivable represents operating revenues due to the Authority from third parties and the participating agencies at year end.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated over the useful lives of the assets. Details concerning values and depreciation rates and amounts are found on the Fixed Assets Schedule.

NOTE E - LONG TERM DEBT

On March 1, 1989, the Betsie Lake Utilities Authority was authorized to borrow \$2,310,000 in revenue bonds from the Farmers Home Administration for construction of the sewer system. The debt borrowed against this allowance was \$2,157,000. On February 1, 1999, Betsie Lake Utilities Authority was authorized to refund these revenue bonds with an issuance of \$2,040,000 in revenue refunding bonds, Series 1999, of which \$95,000 are Serial Bonds with an interest rate of 5% through March 1, 2000; 5.15% from 2000 through 2023; 5.20% 2024 through 2028; and with \$1,090,000 of 5% term bonds due March 1, 2019.

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>BALANCE</u>
2001-2018		1,611,954	1,914,983
2019	1,055,000	100,750	925,000
2020-2023	390,000	161,710	535,000
2004-2028	<u>535,000</u>	<u>78,520</u>	<u>0.00</u>
Grand Total	\$2,015,000	\$ 2,054,463	\$ 0.00

This results in a debt service schedule as follows:

2004-2005	45,000	94,655
2005-2006	45,000	92,405
2006-2007	45,000	90,087
2007-2008	50,000	87,769
2008-2009	50,000	85,155
Next five years		
2009-2014	315,000	383,525
Next five years		
2014-2019	390,000	299,775
Next five years		
2019-2024	500,000	190,600
Thereafter	425,000	50,700

NOTE F - CONTRIBUTED CAPITAL

Contributed capital is not longer isolated from the unreserved fund balance.

NOTE G - RESERVES AND BOND DEBT REQUIREMENTS

The Authority has established a Bond and Interest Reserve Fund. The basic funding of these reserves is as follows:

Debt Payment

Required by refinanced debt	\$142,500
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These reserves are used to pay the bond principal and interest. The balances in these accounts are displayed on the Schedule of Bond Debt Reserves with the excess reserve of \$160,000.

NOTE H - REVENUE FLOW OF FUNDS

The revenues from the system are deposited in the Sewage Disposal Receiving Fund and then transferred as follows:

Operation and Maintenance Fund

Funds are transferred each quarter of the fiscal year into this fund to pay for the expenses of administration, operations and maintenance and accumulated reserve for replacement as needed.

Bond and Interest Redemption Fund

The amount transferred into this fund is that amount required to pay the principal and interest payments with interest paid semi-annually and principal paid annually. Within this fund, a Bond Reserve Account shall contain a balance in this fund of \$142,500. The balance as of June 30, 2004 is \$160,000.

Repair and Reconstruction Fund

After the transfers above, funds can be transferred into this fund by the Authority.

Improvement Fund

After transferring funds above, the Authority may transfer funds into this account for the purpose of making improvements to the system.

NOTE I - INVESTMENT RESTRICTIONS

Money in the bond reserve funds and accounts shall be invested in Government obligations or certificates of deposit with a bank insured by the FDIC. Money invested for the Bond and Redemption Fund shall be limited to maturity dates prior to the next payment due date. Money invested for the Bond Reserve Account shall be limited to a maximum maturity date of five years from the date of investment. All interest received from these deposits shall be credited to each respective fund.

NOTE J - RELATED PARTIES

The Betsie Lake Utilities Authority was created by the City of Frankfort and the Village of Elberta to provide sewer services for the two municipalities. The two units bill and collect charges to the public for private use of the system. The Authority in turn bills the municipalities for use and debt service fees. The two municipalities are ultimately responsible for the operation and debt of the Authority.

NOTE K - USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE L - CONTINGENT LIABILITIES

Because of the potential for rebating an excessive amount to the participants, a decision was made to wait until after the audit is complete to make such a rebate and to base that rebate on audited figures. As a result, the net service revenue from the City and Village is higher at this time.

NOTE M - EXPENDITURES IN EXCESS OF APPROPRIATIONS

Public Act 621 of 1978, requires that a municipality shall not incur expenditures in excess of the monies appropriated. The following activities expended amounts greater than appropriations:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Chemical Processing	16,000	23,502	(7,502)
Equipment Replacement	12,000	29,814	(17,814)
Salaries	112,000	143,799	(31,799)

The primary cause for the administrative was due to increased insurance costs.

NOTE N - RISK MANAGEMENT

All liabilities and property are insured through the Michigan Municipal Liability and Property Pool.

NOTE O - COMPENSATED ABSENCES

There are no compensated absences or post retirement benefits.

NOTE P - PENSION BENEFITS

The only pension available is a Plan to which the Board contributes a fixed amount to each SEP each year. This amount is determined annually at the discretion of the Board and is not a defined benefit or defined contribution plan.

NOTE Q - POST RETIREMENT HEALTH CARE BENEFITS

The Board passed a resolution to pay for post retirement health care insurance for current employees. This benefit will be paid in concurrence with normal health care benefits which is a monthly expenditure. This years health care benefit expenditure was \$25,878.

Required Supplemental Statements

WILSON, WARD CPA FIRM

P.O. Box 205
3015 M-137
Interlochen, MI 49643

(231) 276-7668

Fax: (231) 276-7687

E-mail: wilson@wilsonward.com

To the Betsie Lake Utilities Authority
Frankfort, MI

We have audited the combined financial statements of the Betsie Lake Utilities Authority for the year ended June 30, 2004. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as listed in the table of contents, are presented for purposes of the additional analysis and are not a required part of the combined financials statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Wilson, Ward CPA Firm

July 20, 2004
Interlochen, MI

BETSIE LAKE UTILITIES AUTHORITY
BUDGETED COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
All Fund Types
For the Year Ended June 30, 2004

	Debt Service			Enterprise		
Revenues	Actual	Budget	Variance	Actual	Budget	Variance
Charges for Services						
City of Frankfort - (Note L)				\$165,510	\$155,000	\$10,510
Village of Elberta - (Note L)				64,134	73,000	(8,866)
Other Customers				287,133	57,600	229,533
Debt Service Charges						
City of Frankfort				64,192	96,288	(32,096)
Village of Elberta				41,856	24,602	17,254
Other Revenues	5,465	4,000	(1,465)	94,678	45,661	49,017
Total Revenues	5,465	4,000	(1,465)	717,503	452,151	265,352
Rebates				0	0	
Revenue Net of Rebates	5,465	4,000	(1,465)	717,503	452,151	265,352
Expenditures						
Administrative and General Expenses						
Administrative				20,952	16,000	(4,952)
Insurance				5,673	15,000	9,327
Depreciation				72,615	85,888	13,273
Total Administrative and General Expenses				99,240	116,888	17,648
Operating Expenses						
Salaries, Taxes, and Fringe				143,799	100,000	(43,799)
Utilities				49,795	42,000	(7,795)
Chemicals Processing				23,502	16,000	(7,502)
Equipment Replacement				34,467	12,000	(22,467)
Lab Expenses				3,639	8,000	4,361
Contract Services				30,650	36,000	5,350
Miscellaneous				2,430	0	(2,430)
Bond Interest Expense	112,623	90,100	(22,523)			
Maintenance				25,285	26,000	715
Total Operating Expenditures	112,623	90,100	(22,523)	313,567	240,000	(73,567)
Excess Revenue (Expenditures)	(107,158)	(86,100)	(21,058)	304,696	95,263	209,433
Other Financing Sources (Uses)						
Transfers In	64,005	0	64,005	0		
Transfers Out				64,005	64,005	0
Total Other Financing Sources	64,005	0	64,005	64,005	64,005	0
Excess Revenue & Other Financing Sources (Expenditures)	(43,153)	(86,100)	42,947	240,691	31,258	209,433
Beginning Fund Balance/Retained Earnings	386,820			826,638		
Unreserved funds reserved				0		
Ending Fund Balance/Retained Earnings	<u>\$343,667</u>			<u>\$1,067,329</u>		

Supplemental Statements

Operating and Maintenance Fund

BETSIE LAKES UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF FINANCIAL POSITION

Operating and Maintenance Fund
(Enterprise Fund)

As of June 30, 2003 & 2004

	June 30, 2003	June 30, 2004
Assets		
Current Assets		
Cash and Investments	\$331,272	\$256,986
Accounts Receivable	57,865	119,036
Acc Interest Rec	4,107	0
Inventory	27,960	27,960
Prepaid Expenses	4,037	5,492
Total Current Assets	<u>425,241</u>	<u>409,474</u>
Restricted Deposits & Funded Reserved	662,359	106,000
Work In Process	19,226	880,412
Property, Plant, and Equipment	2,361,783	2,361,783
Accumulated Depreciation	<u>(808,701)</u>	<u>(881,316)</u>
Net Property Plant and Equipment	<u>1,572,308</u>	<u>2,360,879</u>
Total Assets	<u><u>2,659,908</u></u>	<u><u>2,876,353</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	2,270	18,024
Due to Debt Service Fund	<u>0</u>	<u>0</u>
Total Current Liabilities	2,270	18,024
Long Term Debt		
Bonds Payable	<u>1,831,000</u>	<u>1,791,000</u>
Total Liabilities	1,833,270	1,809,024
Fund Equity		
Retained Earnings		
Reserved for Equipment Replacement	106,000	106,000
Reserved for Capital Improvement	395,000	0
Unreserved	<u>325,638</u>	<u>961,329</u>
Total Fund Equity	<u>826,638</u>	<u>1,067,329</u>
Total Liabilities and Fund Balance	<u><u>\$2,659,908</u></u>	<u><u>\$2,876,353</u></u>

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET VS ACTUAL

Operating and Maintenance Fund
(Enterprise Fund)

For the Year Ended June 30, 2004 and June 30, 2003

Revenues	2004 Actual	2004 Original Budget	2004 Budget	2004 Variance	2003 Actual
Charges for Services:					
City of Frankfort - (Note L)	\$165,510	\$155,000	\$160,000	\$5,510	\$155,018
Village of Elberta - (Note L)	64,134	73,000	75,000	(10,866)	72,872
Other Customers	287,133	57,600	120,000	167,133	120,556
Debt Service Charges:					
City of Frankfort	64,192	96,288	96,288	(32,096)	96,288
Village of Elberta	41,856	24,602	24,602	17,254	41,856
Other Revenues	94,678	45,661	45,661	49,017	58,534
Total Revenues	717,503	452,151	521,551	195,952	545,124
Less Rebates	0		0	0	0
Net Revenue	717,503	676,302	521,551	195,952	545,124
Expenditures					
Administrative and General Expenses					
Administrative	20,952	16,000	11,300	(9,652)	14,531
Insurance	5,673	15,000	4,700	(973)	8,346
Depreciation	72,615	85,888	85,888	13,273	85,888
Total Administrative and General Expenses	99,240	116,888	101,888	2,648	108,765
Operating Expenses					
Salaries, Taxes, and Fringe	143,799	100,000	112,000	(31,799)	122,218
Utilities	49,795	42,000	42,000	(7,795)	36,305
Misc	2,430		0	(2,430)	2,430
Chemicals Processing	23,502	16,000	16,000	(7,502)	16,516
Contract Services	30,650	36,000	36,000	5,350	28,501
Lab Expenses	3,639	8,000	8,000	4,361	7,275
Equipment Replacement	34,467	12,000	12,000	(22,467)	3,958
Maintenance	25,285	26,000	26,000	715	23,981
Total Operating Expenditures	313,567	240,000	252,000	(61,567)	241,184
Total Expense	412,807	356,888	353,888	(58,919)	349,949
Excess Revenue Over (Under) Expenses	304,696	319,414	167,663	137,033	195,175
Transfers (In) out	64,005		58,517	(5,488)	91,168
Excess Revenue & Other Sources Over (Under) Expenses & Other Uses	240,691		109,146	142,521	104,007
Fund Balance/Retained Earnings, July 1, 2003	826,638				722,631
Reserved funds moved to unreserved	0				0
Fund Balance/Retained Earnings, June 30, 2004	<u>\$1,067,329</u>				<u>\$826,638</u>

**BETSIÉ LAKE UTILITIES AUTHORITY
FIXED ASSET SCHEDULE**

For The Years Ended June 30, 2003 and June 30, 2004

	June 30, 2003 Balance	Additions	Deletions	June 30, 2004 Balance
Land	\$26,142			\$26,142
Treatment Plant	2,065,794			2,065,794
Storage Building	15,824			15,824
Landscaping	10,080			10,080
Parking & Sidewalk	1,349			1,349
Vehicles	12,685			12,685
Lab Equipment	31,114			31,114
Operating Equipment	20,801			20,801
Operating Equipment	49,160			49,160
Operating Equipment	112,486			112,486
Operating Equipment	1,277			1,277
Snow Blower	2,734			2,734
Misc Eqpt	2,262		0	2,262
Tractor	7,400			7,400
Drive	2,675			2,675
	<u>2,361,783</u>	<u>0</u>	<u>0</u>	<u>2,361,783</u>

	Asset Life	Provision for Depreciation June 30, 2003 Balance	Adj for PP	Depreciation	Provision for Depreciation June 30, 2004 Balance	Net Book Value
Land	0	0		0	0	26,142
Treatment Plant	65	565,698		68,860	634,558	1,431,236
Storage Building	40	4,668		396	5,064	10,760
Landscaping	4	6,624		2,520	9,144	936
Parking & Sidewalk	0	0		0	0	0
Vehicles	5	12,685		0	12,685	0
Lab Equipment	10	31,114		0	31,114	0
Operating Equipment	5	20,801		0	20,801	0
Operating Equipment	10	48,804		356	49,160	0
Operating Equipment	15	112,485		1	112,486	0
Operating Equipment	5	1,020		257	1,277	0
Snow Blower	5	2,734		0	2,734	0
Misc Eqpt	10	904		226	1,130	1,132
Tractor	7	1,057		1,057	2,114	5,286
Drive	25	107		107	214	2,461
		<u>808,701</u>	<u>0</u>	<u>73,780</u>	<u>882,481</u>	<u>1,477,953</u>
		<u>\$808,701</u>		<u>\$73,780</u>		<u>\$1,479,302</u>

The footnotes are an integral part of these Financial Statements.

Debt Service Funds

BETSIE LAKE UTILITIES AUTHORITY
COMBINING STATEMENT OF FINANCIAL POSITION
As of June 30, 2004

	Bond & Interest Redemption Fund	Bond Reserve Fund	Total
Assets			
Cash in Bank	\$178,199	\$0	\$178,199
Restricted Funds	36,896	160,000	196,896
Accrued Interest Rec	649		649
Total Assets	<u>215,744</u>	<u>160,000</u>	<u>375,744</u>
Liabilities and Fund Balance			
Accrued Interest Payable	<u>32,077</u>	0	<u>32,077</u>
Total Liabilities	32,077		32,077
Fund Balance	<u>183,667</u>	<u>160,000</u>	<u>343,667</u>
Total Liabilities and Fund Balance	<u>\$215,744</u>	<u>\$160,000</u>	<u>\$375,744</u>

The footnotes are an integral part of these Financial Statements.

BETSIE LAKE UTILITIES AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

Debt Service Funds
For the Year Ended June 30, 2004

	Bond & Interest Redemption Fund	Bond Reserve Fund	Total
Revenues			
Revenue	\$5,465	\$0	\$5,465
Expenditures			
Interest on Bonds	112,623	0	112,623
Total Expenditures	<u>112,623</u>	<u>0</u>	<u>112,623</u>
Excess Revenue (Expenditures)	(107,158)	0	(107,158)
Other Financing Sources/Applications			
Transfer In (out)	<u>64,005</u>	<u>0</u>	<u>64,005</u>
Excess Revenue & Other Financing Sources (Expenditures)	(43,153)	0	(43,153)
Fund Balance, July 1, 2003	<u>226,820</u>	<u>160,000</u>	<u>386,820</u>
Fund Balance, June 30, 2004	<u><u>\$183,667</u></u>	<u><u>\$160,000</u></u>	<u><u>\$343,667</u></u>

The footnotes are an integral part of these Financial Statements.

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET VS ACTUAL

Bond Interest and Redemption Fund
For the Year Ended June 30, 2004

	Budget	Actual	Variance
Revenues			
Revenue	\$4,000	\$5,465	\$1,465
Expenditures			
Misc	0	0	
Interest on Bonds	90,100	112,623	(22,523)
Total Expenditures	90,100	112,623	(22,523)
Excess Revenue (Expenditures)	(86,100)	(107,158)	23,988
Other Financing Sources/Applications:			
Transfer Out	64,005	64,005	0
Excess Revenue & Other Financing Sources (Expenditures)	(22,095)	(43,153)	
Fund Balance, July 1, 2003		226,820	
Fund Balance, June 30, 2004		<u>\$183,667</u>	

The footnotes are an integral part of these Financial Statements.

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET VS ACTUAL

Bond Reserve Fund
For the Year Ended June 30, 2004

	Budget	Actual	Variance
Revenues			
Revenue	\$0	\$0	\$0
Expenditures			
Misc	0	0	
Total Expenditures	0	0	0
Excess Revenue (Expenditures)	0	0	0
Other Financing Sources/Applications:			
Transfer Out	0	0	0
Excess Revenue & Other Financing Sources (Expenditures)	0	0	
Fund Balance, July 1, 2003		160,000	
Fund Balance, June 30, 2004		<u>\$160,000</u>	

The footnotes are an integral part of these Financial Statements.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Betsie Lake Utilities Authority
Frankfort, MI

We have audited the general purpose financial statements of Betsie Lake Utilities Authority as of and for the year ended June 30, 2004 and have issued our report thereon dated July 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Betsie Lake Utilities Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Betsie Lake Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Betsie Lake Utilities Authority, in a separate letter dated July 20, 2004.

This report is intended solely for the information and use of the management, others within the organization, the Utilities Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Interlochen, MI
July 20, 2004